

Citadel Exploration, Inc.
Form 10-Q
November 21, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 333-164850
CITADEL EXPLORATION, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

27-1550482
(I.R.S. Employer
Identification No.)

420 Bryant Circle, Unit D
Ojai, California 93023
(Address of principal executive offices)

(530) 871-1484
(Registrant's telephone number, including area code)

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Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) ☒ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of Common Stock, \$0.001 par value, outstanding on November 21, 2011 was 20,220,000 shares.

CITADEL EXPLORATION, INC.
QUARTERLY PERIOD ENDED September 30, 2011

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CITADEL EXPLORATION, INC.
(FORMERLY SUBPRIME ADVANTAGE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
Current assets:		
Accounts receivable	\$429	\$-
Prepaid expenses	24,997	-
Total current assets	25,426	-
Oil and gas properties	176,503	81,323
Website, net	1,222	-
Total assets	\$203,151	\$81,323
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Bank overdraft	\$987	\$-
Accounts payable	93,330	800
Accrued interest payable	542	-
Accrued interest payable - related party	1,316	-
Notes payable	52,488	-
Notes payable - related party	108,700	-
Total current liabilities	257,363	800
Total liabilities	257,363	800
Stockholders' deficit:		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 20,220,000 and 14,000,000 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	20,220	14,000
Additional paid-in capital	80,569	72,293
Stock payable	34,000	-
Deficit accumulated during development stage	(189,001)	(5,770)
Total stockholders' deficit	(54,212)	80,523
Total liabilities and stockholders' deficit	\$203,151	\$81,323

See Accompanying Notes to Consolidated Financial Statements.

CITADEL EXPLORATION, INC.
(FORMERLY SUBPRIME ADVANTAGE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF OPERATIONS
(unaudited)

	For the three months ended		For the nine months ended		(Inception) November 6, 2006 to September 30, 2011
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	September 30, 2011
Revenue	\$675	\$-	\$675	\$-	\$675
Operating expenses:					
General and administrative	40,357	-	48,074	-	49,615
Amortization	115	-	153	-	153
Professional fees	21,323	-	132,920	-	132,920
Total operating expenses	61,795	-	181,147	-	182,688
Other expenses:					
Interest expense	(1,443)	-	(1,443)	-	(1,443)
Interest expense - related party	(965)	-	(1,316)	-	(1,316)
Total other expenses	(2,408)	-	(2,759)	-	(2,759)
Loss before provision for income taxes	(63,528)	-	(183,231)	-	(184,772)
Provision for income taxes	-	-	-	-	(4,229)
Net loss	\$(63,528)	\$-	\$(183,231)	\$-	\$(189,001)
Weighted average number of common shares outstanding - basic	20,220,000	14,000,000	17,439,121	14,000,000	
Net loss per share - basic	\$(0.00)	\$-	\$(0.01)	\$-	

See Accompanying Notes to Consolidated Financial Statements.

CITADEL EXPLORATION, INC.
(FORMERLY SUBPRIME ADVANTAGE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

	For the nine months ended		(Inception) November 6, 2006 to September 30, 2011
	September 30, 2011	September 30, 2010	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$(183,231)	\$-	\$(189,001)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization	153	-	153
Changes in operating assets and liabilities:			
Increase in accounts receivable	(429)	-	(429)
Increase in prepaid expenses	(24,997)	-	(24,997)
Increase in accounts payable	92,530	-	93,330
Increase in accrued interest payable	542	-	542
Increase in accrued interest payable – related party	1,316	-	1,316
Net cash used in operating activities	(114,116)	-	(119,086)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase oil and gas properties	(95,180)	-	(176,503)
Website	(1,375)	-	(1,375)
Net cash used in investing activities	(96,555)	-	(177,878)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in cash overdraft	987		987
Proceeds from sale of common stock, net of offering costs	48,496	-	134,789
Proceeds from notes payable	52,488	-	52,488
Proceeds from notes payable - related party	108,700	-	108,700
Net cash provided by financing activities	210,671	-	296,964
NET CHANGE IN CASH	-	-	-
CASH AT BEGINNING OF YEAR	-	-	-
CASH AT END OF YEAR	\$-	\$-	\$-

SUPPLEMENTAL INFORMATION:

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Interest paid	\$-	\$-	\$-
Income taxes paid	\$-	\$-	\$-

See Accompanying Notes to Consolidated Financial Statements.

Citadel Exploration, Inc.
(Formerly Subprime Advantage, Inc.)
(A Development Stage Company)
Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The condensed interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2010 and notes thereto included in the Company's 10-K annual report and all amendments. The Company follows the same accounting policies in the preparation of interim reports.

Results of operations for the interim period are not indicative of annual results.

Principles of Consolidation

For the year ended December 31, 2010, the consolidated financial statements include the accounts of Citadel Exploration, LLC. For the nine months ended September 30, 2011, the consolidated financial statements include the accounts of Citadel Exploration, Inc. and Citadel Exploration, LLC. All significant intercompany balances and transactions have been eliminated. Citadel Exploration, Inc. and Citadel Exploration, LLC will be collectively referred herein to as the "Company".

Nature of operations

Currently, the Company is focused on the acquisition and development of oil and gas resources in California. The Company has not yet found oil and gas resources in commercially exploitable quantities and is engaged in exploring land in an effort to discover them. The Company has been in the exploration stage since its formation and has not realized significant revenues from its planned principal operations.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

Citadel Exploration, Inc.
(Formerly Subprime Advantage, Inc.)
(A Development Stage Company)
Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-based compensation

The Company records stock based compensation in accordance with the guidance in ASC Topic 718 which requires the Company to recognize expense related to the fair value of its employee stock option awards. This eliminates accounting for share-based compensation transactions using the intrinsic value and requires instead that such transactions be accounted for using a fair-value-based method. The Company recognizes the cost of all share-based awards on a graded vesting basis over the vesting period of the award.

Earnings per share

The Company follows ASC Topic 260 to account for the earnings per share. Basic earnings per common share (“EPS”) calculations are determined by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share calculations are determined by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding. During periods when common stock equivalents, if any, are anti-dilutive they are not considered in the computation.

Oil and gas properties

The Company uses the full cost method of accounting for its oil and natural gas properties. Under this method, all acquisition, exploration, development and estimated abandonment costs incurred for the purpose of acquiring and finding oil and natural gas are capitalized within cost centers. At September 30, 2011 and December 31, 2010, the Company had one cost center – California. Unevaluated property costs are excluded from the amortization base until determination of the existence of proved reserves on the respective property or until the requirement for impairment. Unevaluated properties are reviewed at the end of each quarter to determine whether portions of the costs should be reclassified to the full cost pool and thereby subject to amortization. Sales of oil and natural gas properties are accounted for as adjustments to the net full cost pool with no gain or loss recognized, unless the adjustment would significantly alter the relationship between capitalized costs and proved reserves.

Capitalized costs of oil and natural gas properties evaluated as having, or not having, proved reserves are amortized in the aggregate by country using the unit-of-production method based upon estimated proved oil and natural gas reserves. For amortization purposes, relative volumes of oil and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil. Amortizable costs include estimates of future development costs of proved undeveloped reserves. The costs of properties not yet evaluated are not amortized until evaluation of the property. Such evaluations for a well and associated lease rights are made when it is determined whether or not the well has proved oil and natural gas reserves. Other unevaluated properties are evaluated for impairment as of the end of each calendar quarter based upon various factors at the time, including drilling plans, drilling activity, management’s estimated fair values of lease rights by project, and remaining lives of leases.

Citadel Exploration, Inc.
(Formerly Subprime Advantage, Inc.)
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Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalized costs of oil and natural gas properties (net of related deferred income taxes) may not exceed a ceiling amount equal to the present value, discounted at 10% per annum, of the estimated future net cash flows from proved oil and natural gas reserves plus the cost of unevaluated properties (adjusted for related income tax effects). Should capitalized costs exceed this ceiling amount, the excess is charged to earnings as an impairment expense, net of its related reduction of the deferred income tax provision. The present value of estimated future net cash flows is computed by applying the twelve-month historical averages of prices of oil and natural gas to estimated future production of proved oil and natural gas reserves as of period-end, less estimated future expenditures (at period-end rates) to be incurred in developing and producing the proved reserves and assuming continuation of economic conditions existing at period-end. The present value of future net cash flows of proved reserves excludes future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet.

Revenue recognition

The Company recognizes oil and natural gas revenues from our interests in producing wells when production is delivered to, and title has transferred to, the purchaser and to the extent the selling price is reasonably determinable. Gas-balancing arrangements are accounted for using the sales method.

Recent pronouncements

The Company has evaluated the recent accounting pronouncements through ASU 2011-11 and believes that none of them will have a material effect on the company's financial statements.

NOTE 2 – GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business. As noted above, the Company is in the development stage and, accordingly, has not yet generated revenues from operations. Since its inception, the Company has been engaged substantially in financing activities and developing its business plan and incurring start up costs and expenses. As a result, the Company incurred accumulated net losses from Inception (November 6, 2006) through the period ended September 30, 2011 of (\$189,001). In addition, the Company's development activities since inception have been financially sustained through debt and equity financing.

The ability of the Company to continue as a going concern is dependent upon its ability to raise additional capital from the sale of common stock and, ultimately, the achievement of significant operating revenues. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

Citadel Exploration, Inc.
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Notes to Consolidated Financial Statements

NOTE 3 – PREPAID EXPENSES

As of September 30, 2011, the Company had prepaid insurance totaling \$24,997. The prepaid insurance will be expensed on a straight line basis over the life of the insurance policy. During the three months ended September 30, 2011, the Company recorded \$8,332 of insurance expenses. During the nine months ended September 30, 2011, the Company recorded \$8,332 of insurance expenses.

NOTE 4 – OIL AND GAS PROPERTIES

The costs capitalized in oil and gas properties as of September 30, 2011 and December 31, 2010 are as follows:

	2011	2010
Oil and gas property lease	\$61,984	\$41,323
Exploration	114,519	40,000
	\$176,503	\$81,323

On January 31, 2009, the Company entered into an oil, gas and mineral lease with an unrelated third party. The Company has the right to develop and operate the leased premises for an initial term of three years and the lease will continue as long as the Company continues actual drilling operations and continued development. The initial minimum lease payment of \$20,661 was made upon execution of the lease and the two remaining minimum lease payments of \$20,661 were due on January 31, 2010 and 2011. Additionally, the Company is obligated to pay royalties to the unrelated third party. On oil and gas from all wells on the leased premises, the royalty is a total of 20% of the market value. The royalty payments are due on or before the last day of each month for the preceding month's activity. If the royalty payment is not made timely, the Company will owe a 10% per annum interest on the royalties due.

NOTE 5 – NOTES PAYABLE

Notes payable consists of the following at:

	September 30, 2011	December 31, 2010
Note payable to an individual, line of credit to borrow up to \$100,000, unsecured, 10% interest, due upon demand	\$52,488	\$-
	\$52,488	\$-

Interest expense for the three months ended September 30, 2011 and 2010 was \$542 and \$0, respectively. Interest expense for the nine months ended September 30, 2011 and 2010 was \$542 and \$0, respectively.

Citadel Exploration, Inc.
(Formerly Subprime Advantage, Inc.)
(A Development Stage Company)
Notes to Consolidated Financial Statements

NOTE 6 – NOTES PAYABLE – RELATED PARTY

Notes payable consists of the following at:

	September 30, 2011	December 31, 2010
Note payable to an entity owned and controlled by an officer, director and shareholder, line of credit to borrow up to \$100,000, unsecured, 4% interest, due upon demand	\$87,000	\$-
Note payable to an entity owned and controlled by an officer, director and shareholder, line of credit to borrow up to \$50,000, unsecured, 4% interest, due upon demand	8,450	-
Note payable to an entity owned and controlled by an officer, director and shareholder, line of credit to borrow up to \$50,000, unsecured, 4% interest, due upon demand	13,250	-
	\$108,700	\$-

Interest expense for the three months ended September 30, 2011 and 2010 was \$964 and \$0, respectively. Interest expense for the nine months ended September 30, 2011 and 2010 was \$1,316 and \$0, respectively.

NOTE 7 – STOCKHOLDERS' EQUITY

The Company is authorized to issue 100,000,000 shares of its \$0.001 par value common stock.

On March 2, 2011, the Company effected a 12-to-1 forward stock split of its \$0.001 par value common stock with a record date of March 22, 2011.

All shares and per share amounts have been retroactively restated to reflect the split discussed above.

On May 3, 2011, the Company issued 14,000,000 shares to an individual in exchange for a 100% interest in Citadel Exploration, LLC. As part of the Membership Purchase Agreement the former officers and directors agreed to cancel 7,696,000 shares of common stock. On May 3, 2011, the transaction was closed and 100% interest in Citadel Exploration, LLC was acquired by the Company. For accounting purposes, the acquisition of Citadel Exploration, LLC by the Company has been recorded as a reverse acquisition of a public company and recapitalization of Citadel Exploration, LLC based on the factors demonstrating that Citadel Exploration, LLC represents the accounting acquirer. The historic financial statements of Citadel Exploration, LLC and related entities, while historically presented as an LLC equity structure, have been retroactively presented as a corporation for comparability purposes. The Company changed its business direction and is now an oil and gas company.

On May 20, 2011, the Company sold 62,500 shares of common stock for cash of \$50,000. As of June 30, 2011, the Company issued 20,000 shares of common stock. As of September 30, 2011, the remaining 42,500 shares have not been issued and have been recorded to stock payable.

Citadel Exploration, Inc.
(Formerly Subprime Advantage, Inc.)
(A Development Stage Company)
Notes to Consolidated Financial Statements

NOTE 7 – STOCKHOLDERS' EQUITY (CONTINUED)

During the nine months ended September 30, 2011, there have been no other issuances of common stock.

NOTE 8 – WARRANTS AND OPTIONS

As of September 30, 2011, there were no warrants or options outstanding to acquire any additional shares of common stock.

NOTE 9 – MATERIAL AGREEMENTS

On May 3, 2011, the Registrant, entered into a Membership Purchase Agreement and Plan of Reorganization (the "Original Agreement") with Citadel Explorations, LLC, a California Limited Liability Company ("Citadel LLC") to acquire 100% of Citadel, LLC's outstanding membership interest in exchange for 14,000,000 shares of common stock, concurrent with the Closing. Additionally, the Original Agreement sets forth conditions that the Company shall have obtained a cancellation of 7,696,000 shares of common stock. The Original Agreement with Citadel, LLC, upon closing, will provide the Company with the ownership of 100% of Citadel, LLC, which is involved in the oil and gas operating business.

Additionally, the officers and board of directors of the Company will resign and appoint Armen Nahabedian, to serve as Chief Executive Officer, President, Secretary, Treasurer, and a Director of the Registrant. Mr. Nahabedian shall serve as a Director of the Registrant until the next annual meeting of stockholders, or until successors have been elected.

On April 27, 2011, the Company entered into an Addendum No. 1 ("Addendum") to the Membership Purchase Agreement and Plan of Reorganization dated February 28, 2011 ("Original Agreement") with Citadel Exploration, LLC ("Citadel LLC"), a California Limited Liability Company. Pursuant to the Addendum the effective date was extended from April 1, 2011 to May 9, 2011 to complete the conditions set forth in the Merger Agreement.

NOTE 10 – SUBSEQUENT EVENTS

During October 2011, the Company received an additional \$2,810 as part of the notes payable with an individual. The loan bears interest at 10% per annum.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements and involves risks and uncertainties that could materially affect expected results of operations, liquidity, cash flows, and business prospects. These statements include, among other things, statements regarding:

- o our ability to diversify our operations;
 - o exploration risks such as drilling unsuccessful wells;
 - o our ability to attract key personnel;
 - o our ability to operate profitably;
- o our ability to efficiently and effectively finance our operations, and/or purchase orders;
- o inability to achieve future sales levels or other operating results;
 - o inability to raise additional financing for working capital;
 - o inability to efficiently manage our operations;
- o the inability of management to effectively implement our strategies and business plans;
- o the unavailability of funds for capital expenditures and/or general working capital;
- o the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;
 - o deterioration in general or regional economic conditions;
- o changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;
- o adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed under the heading "Risk Factors" in Part II, Item 1A and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

References in the following discussion and throughout this quarterly report to "we", "our", "us", "Citadel", "the Company", and similar terms refer to Citadel Exploration, Inc. unless otherwise expressly stated or the context otherwise requires.

OVERVIEW AND OUTLOOK

Background

Citadel Exploration, Inc., formerly Subprime Advantage, Inc., is a development stage company incorporated in the State of Nevada in December of 2009. On February 28, 2011, we entered into an agreement for the acquisition of 100% of the membership interest of Citadel Exploration, LLC ("CEL"), a California limited liability company.

On March 2, 2011, we changed our name from Subprime Advantage, Inc. to Citadel Explorations, Inc. in anticipation of the completion of the acquisition of 100% of all of the outstanding membership interest of CEL. The acquisition of 100% of the outstanding membership interest of CEL was completed on May 3, 2011. As a result of the completion of the acquisition, we are an oil and gas exploration company with operations in the Salinas Basin of California.

Our Operations

As a result of completing the acquisition of the Shallow Indian Oil Development Project, located in the Bitterwater sub-basin of the Salinas Basin in California, consisting of 688.71 acres of leased property through the acquisition of 100% of the outstanding membership interest of CEL on May 3, 2011, our focus has been redirected to the oil and gas operations of CEL. We are now an oil and gas exploration, development and production company. Our principal strategy is to focus on the acquisition of oil and natural gas mineral leases that have existing production and cash flow. Once acquired, we strive to implement an accelerated development program utilizing capital resources, a regional operating focus, an experienced management and technical team, and enhanced recovery technologies to attempt to increase production and increase returns for our stockholders. Our oil and natural gas acquisition and development activities are currently focused in the Salinas Basin of California.

In September 2011, we entered into a non-binding letter agreement with Nahabedian Exploration Group LLC (NEG), wherein we agreed to retain NEG as geologic consultants for activities planned in the next 18 to 36 months. In addition, pursuant to the letter and subject to provisions of adequate funding of Citadel, NEG proposed that we shall pay NEG the retainer of \$10,000 per month for a primary term of 18 months. During the primary term, we will have a first right to review and participate in oil and gas drilling prospects which are developed by the NEG staff. Both NEG and Citadel have agreed in principal that we will have the right to participate with NEG by paying 1/3 of the costs of an initial well to earn 25% of the interest. We may elect to increase our interest in a test well under the same terms (1/3 FOR 1/4) for up to 50% of the interest in the well and prospect area. NEG will also earn a 1% royalty on every prospect generated. A modified version of a California 610 operating agreement is being drafted by NEG to reflect that agreement. At the end of the primary term, we shall have a one-time option to extend the primary term by paying NEG a renewal bonus of \$500,000, at which point the consulting agreement will be extended for an additional 18 months under the same general terms and conditions.

We have not entered into a definitive consulting agreement with NEG.

In September 2011, we agreed to participate with NEG and Sojitz Energy Ventures (Sojitz) in the development and extension of Landslide Oilfield, subject to the consent of the fee mineral interest owner, permit availability, and adequate financing. Subject to adequate Citadel funding, we will pay 90% of the proposed test well costs, through abandonment if dry and through temporary tanks if completed as a producer, in order to earn a 60% interest in the test well, its spacing unit, and the balance of the leased lands, to a depth equivalent of 100 feet below the deepest producing perforation open in the test well, in the event the well is successfully completed as an oil/gas well.

In September 2011, we agreed to participate with Blackhawk Exploration LLC (Blackhawk) and Sojitz in the South San Joaquin Valley. Sojitz and Blackhawk have collectively leased over 52,000 acres in the area under the guidance of NEG. Subject to adequate financing and on a prospect by prospect basis we will be able to farm-in on that lease block under favorable terms. Sojitz, Blackhawk and Citadel have agreed in principal that we will have the right to participate on the block by paying 1/3 of the costs of an initial well to earn 25% of the interest. We may elect to increase its interest in a test well under the same terms (1/3 FOR 1/4) for up to 50% of the interest in the well in prospect area. A modified version of a California 610 operating agreement is being drafted by Blackhawk and Sojitz to reflect that agreement. We have already identified more than 15 prospects on the lease block for drilling. Armen Nahabedian, president and CEO of Citadel, is a significant owner of Blackhawk. Blackhawk will pay 10% of the well costs to earn 10% of the interest in these wells and will not be carried by Citadel.

In September 2011, we agreed to participate with Blackhawk and Sojitz in the redevelopment of Pastoria Creek Oilfield. Subject to the consolidation of interest on the 160 acre lease (Pastoria Creek A block) and adequate financing, we will participate in a vertical well and horizontal development well in the near term. We will also participate in a vertical test well on the adjacent, recently acquired 600 acre block (Pastria Creek B block).

We have not entered into definitive agreements with NEG, Blackhawk or Sojitz.

Going Concern

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of the Company as a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company is in the development stage and, accordingly, has not generated revenues from operations. As shown on the accompanying financial statements, the Company has incurred a net loss of \$189,001 for the period from inception (November 6, 2006) to September 30, 2011. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The future of the Company is dependent upon its ability to obtain financing and upon future profitable operations from the development of its oil and gas business opportunities.

RESULTS OF OPERATIONS

For accounting purposes, the acquisition of Citadel Exploration, LLC by the Company has been recorded as a reverse acquisition of a public company and recapitalization of Citadel Exploration, LLC based on the factors demonstrating that Citadel Exploration, LLC represents the accounting acquirer. The historic financial statements of Citadel Exploration, LLC and related entities, while historically presented as an LLC equity structure, have been retroactively presented as a corporation for comparability purposes.

Since our inception on November 6, 2006 through September 30, 2011, we have not generated any revenues.

Operating expenses totaled \$61,795 during the three months ended September 30, 2011 and \$181,147 during the nine months ended September 30, 2011 as compared to \$0 in the three and nine months ended in the prior year. Operating expenses primarily consisted of general and administrative fees, professional fees and amortization in the three and nine months ended September 30, 2011.

General and administrative fees increased \$40,357 from the three months ended September 30, 2010 to the three months ended September 30, 2011. This increase was primarily as a result of having a license/permit expense in the period ended in 2011 and not in the same period a year ago.

General and administrative fees increased \$48,074 from the nine months ended September 30, 2010 to the nine months ended September 30, 2011. This increase was primarily as a result of having a license/permit expense in the period ended in 2011 and not in the same period a year ago.

Professional fees increased \$21,323 from the three months ended September 30, 2010 to the three months ended September 30, 2011. The increase was primarily due to an increase in legal fees.

Professional fees increased \$132,920 from the nine months ended September 30, 2010 to the nine months ended September 30, 2011. The increase was primarily due to an increase in legal fees.

Amortization fees increased \$115 from the three months ended September 30, 2010 to the three months ended September 30, 2011. The increase was primarily due to amortization on the website.

Amortization fees increased \$153 from the nine months ended September 30, 2010 to the nine months ended September 30, 2011. The increase was primarily due to amortization on the website.

Liquidity and Capital Resources

As of September 30, 2011, we did not have any cash or cash equivalents. The following table provides detailed information about our net cash flow for all financial statement periods presented in this Quarterly Report. To date, we have financed our operations through the issuance of stock and borrowings.

The following table sets forth a summary of our cash flows for the nine months ended September 30, 2011 and 2010:

	Nine Months Ended September 30,	
	2011	2010
Net cash used in operating activities	\$ (158,862)	\$ -
Net cash used in investing activities	(96,555)	-
Net cash provided by financing activities	255,417	-
Net increase in Cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

Operating activities

Net cash used in operating activities was \$114,116 for the period ended September 30, 2011. The net cash used in operating activities consisted primarily of professional fees.

Investing activities

Net cash used in investing activities was \$96,555 for the period ended September 30, 2011. The net cash used in investing activities consisted of payments due from related party and purchase of trademark.

Financing activities

Net cash provided by financing activities for the period ended September 30, 2011 was \$210,671. The net cash provided by financing activities was mainly attributable to proceeds from sale of common stock.

As of September 30, 2011, we continue to use traditional and/or debt financing as well as through the issuance of stock to provide the capital we need to run our business.

On April 8, 2011, our wholly-owned subsidiary, Citadel Exploration, LLC, executed a \$50,000 line of credit with The Nahabedian Group ("TNG"), a related third party. During the quarter ended September 30, 2011, we received \$13,250 from TNG. The note is due on upon demand and bears interest at a rate of 4% per year.

On May 11, 2011, our wholly-owned subsidiary, Citadel Exploration, LLC, executed a \$50,000 line of credit with Gold or Glory, Inc. ("Gold or Glory"), a related third party. During the quarter ended September 30, 2011, we received \$8,450 from Gold or Glory. The note is due on upon demand and bears interest at a rate of 4% per year.

On July 22, 2011, our wholly-owned subsidiary, Citadel Exploration, LLC, executed a \$100,000 line of credit with Shahean Talebreza. During the quarter ended September 30, 2011, we received \$52,488 from Mr. Talebreza and on October 24, 2011 we received an additional \$2,809. The note is due on upon demand and bears interest at a rate of 10% per year.

During the three and nine months ended September 30, 2011 and September 30, 2010, we had interest expense of \$2,408 and \$2,759, respectively.

Without cash flow from operations we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We will require additional cash resources due to changed business conditions, implementation of our strategy to successfully develop our Shallow Indian Oil Development Project, or acquisitions we may decide to pursue. If our own financial resources and then current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

Our ability to obtain additional capital through additional equity and/or debt financing, and Joint Venture or Working Interest partnerships will also be important to our expansion plans. In the event we experience any significant problems assimilating acquired assets into our operations or cannot obtain the necessary capital to pursue our strategic plan, we may have to reduce the growth of our operations. This may materially impact our ability to increase revenue and continue our growth.

Off-Balance Sheet Arrangements

As of the date of this Report, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Operation Plan

Our plan is to focus on the acquisition and drilling of prospective oil and natural gas mineral leases. Once we have tested a prospect as productive, subject to availability of capital, we will implement a development program with a regional operating focus in order to increase production and increase returns for our stockholders. Exploration, acquisition and development activities are currently focused in California. Depending on availability of capital, and other constraints, our goal is to increase stockholder value by finding and developing oil and natural gas reserves at costs that provide an attractive rate of return on our investments.

We expect to achieve these results by:

- Investing capital in exploration and development drilling and in secondary and tertiary recovery of oil as well as natural gas;
- Using the latest technologies available to the oil and natural gas industry in our operations;
- Finding additional oil and natural gas reserves on the properties we acquire.

In addition to raising additional capital we plan to take on Joint Venture (JV) or Working Interest (WI) partners who may contribute to the capital costs of drilling and completion and then share in revenues derived from production. This economic strategy may allow us to utilize our own financial assets toward the growth of our leased acreage holdings, pursue the acquisition of strategic oil and gas producing properties or companies and generally expand our existing operations.

Because of our limited operating history we have yet to generate any revenues from the sale of oil or natural gas. Our activities have been limited to raising capital, negotiating WI agreements, becoming a publicly traded company and preliminary analysis of reserves and production capabilities from our exploratory test wells.

Our future financial results will depend primarily on: (i) the ability to continue to source and screen potential projects; (ii) the ability to discover commercial quantities of natural gas and oil; (iii) the market price for oil and natural gas; and (iv) the ability to fully implement our exploration and development program, which is dependent on the availability of capital resources. There can be no assurance that we will be successful in any of these respects, that the prices of oil and gas prevailing at the time of production will be at a level allowing for profitable production, or that we will be able to obtain additional funding to increase our currently limited capital resources.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

This item is not applicable as we are currently considered a smaller reporting company.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer, Armen Nahabedian, and our Principal Financial Officer, Christopher Whitcomb evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on that evaluation and assessment, Mr. Armen Nahabedian and Mr. Christopher Whitcomb concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not presently a party to any material litigation, nor to the knowledge of management is any litigation threatened against us, which may materially affect us.

Item 1A. Risk Factors

Our significant business risks are described in Item 1A. to Part II of Form 10-Q for the quarter ended March 31, 2011 (filed May 16, 2011) and Item 1A. to Part I of Form 10-K for the year ended December 31, 2010 (filed February 16, 2011) to which reference is made herein.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities from the time of our inception on November 6, 2006 through the period ended September 30, 2011.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Other Information.

None.

Item 5. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

*XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITADEL EXPLORATION, INC.

Date: November 21, 2011

By:

/S/ Armen Nahabedian

Armen Nahabedian
Chief Executive Officer
(Principal Executive Officer and duly
authorized signatory)